

**Before the
Federal Communications Commission
Washington, D.C. 20554**

DOCKET FILE COPY ORIGINAL

RECEIVED

MAY 5 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

DOCKET FILE COPY ORIGINAL

In the Matter of)

800 Data Base Access Tariffs and the)
800 Service Management System Tariff)

CC Docket No. 93-129

**U S WEST FURTHER SUPPLEMENT TO DIRECT CASE
AND RESPONSE TO COMMENTS**

U S WEST Communications, Inc.

Jeffrey S. Bork
1020 19th Street, N.W., Suite 700
Washington, D.C. 20036
303-672-2700

Laurie Bennett, Of Counsel

May 5, 1994

No. of Copies rec'd
List A B C D E

074

Table of Contents

I.	Preliminary Statement and Summary	1
II.	U S WEST's Exogenous Costs Are Reasonable	6
A.	The Governing Standard of Review	6
B.	The Cost Categories U S WEST Has Identified Are Reasonable	7
1.	800 SSP Software	7
2.	Changes to Access Billing System	9
C.	U S WEST's 800 Service Allocation Factors Are Reasonable	9
1.	800 SSP Software	11
2.	SMS	12
3.	SMS/SCP Links	12
4.	Billing System Modifications	12
5.	800 SCPs	12
6.	Regional STP/SCP Links	15
D.	U S WEST's State/Interstate Allocator Is Reasonable.....	15
E.	U S WEST's Interstate 800 Data Base Exogenous Cost Is Reasonable	18
1.	Interstate 800 Data Base Investment	18
2.	Interstate 800 Data Base Expenses	18
3.	Calculation of U S WEST's 800 Data Base Exogenous Cost	19

III.	U S WEST's Basic 800 Query Rate Is Reasonable	20
IV.	Use of Method 2 Is Appropriate Because It Is the Only Method which Complies with the Price Cap Rules	20
V.	The Terms and Conditions in U S WEST's 800 Access Tariff Are Reasonable	23
A.	Basic Area of Service Screening	23
B.	Query Charge Imposed on Delivered Calls Only	23
C.	Tariffing of RESPORG Services.....	24
D.	Vertical Feature Use Restriction	25
VI.	Conclusion	25

**Before the
Federal Communications Commission
Washington, D.C. 20554**

RECEIVED
MAY 5 1994
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)
)
800 Data Base Access Tariffs and the) CC Docket No. 93-129
800 Service Management System Tariff)

**U S WEST FURTHER SUPPLEMENT TO ITS DIRECT CASE
AND RESPONSE TO COMMENTS**

U S WEST Communications submits this memorandum to further supplement its direct case and to respond to the nine comments filed in connection with the direct cases it and others submitted on September 20, 1993 and the supplemental direct cases it and others submitted on March 15, 1994.¹

I. Preliminary Statement and Summary

There is less to this proceeding — much less — than the commenters would lead this Commission to believe. The facts are that U S WEST's basic 800 data base carrier identification of one-third of a penny per call is reasonable and that this rate is more than offset by the vast benefits of data base access.² The reasonableness of this rate becomes immediately apparent when it is compared to U S WEST's LIDB validation rate because both services use

¹Comments were filed by Ad Hoc Telecommunications Users Committee ("Users Committee"); Aeronautical Radio, Inc. ("ARINC"); Allnet Communication Services, Inc. ("Allnet"); American Telephone and Telegraph Company ("AT&T"); CompuServe Inc. ("CompuServe"); First Financial Management Corp. ("FFMC"); MCI Telecommunications Corp. ("MCI"); National Data Corp. ("NDC"); and Sprint Communications Company ("Sprint").

²U S WEST's original per-call rate was \$0.0035, but this rate was reduced effective September 1, 1993 to \$0.003312. The current rate is 25% lower than the telephone industry mean rate of \$0.0044. See 800 Suspension Order, 8 FCC Rcd 3242, 3244 ¶ 19 (April 28, 1993).

the same CCS-7 network in the same manner (i.e., to access information in the same external data bases). U S WEST's 800 query rate (\$0.003312) is only one-tenth that of its Commission-approved LIDB query rate (\$0.032484)!

U S WEST's per call rate of one-third of a penny must be put into perspective. This rate represents an increase of only one-fifth of a penny over the rate U S WEST had been charging for NXX access:

Data Base Per-Call Rate	\$0.003312
NXX Per-Call Rate	-\$0.001299
Incremental Increase	\$0.002013

It is not surprising that data base access is more expensive to provide than NXX access. NXX access was provisioned utilizing existing technology (i.e., simple switch translations using available memory within most electronic switches). Data base access, in contrast, required telephone companies to purchase new technology and equipment.³ Among other things, exchange carriers were required to:

- Deploy and operate a service management system (SMS) to manage this nationwide service;
- Deploy and operate new, large-capacity fault-tolerant computers to house 800 carrier identification information;
- Transmit 800 queries to external data bases hundreds of (and in portions of U S WEST's region, over a thousand) miles; and

³There is no basis whatsoever for the undocumented assertion that "even those costs used solely for 800 data base might yield substantial efficiencies and savings for the LECs." Users Committee at 7. The indisputable fact is that telephone companies had to spend money (to purchase hardware, software and additional capacity) to provide the 800 data base service mandated by the Commission.

- Install special software in many electronic switches to generate and transmit 800 data base queries.

If anything is surprising, it is that U S WEST has been able to perform all these functions for only one-fifth of a penny more per 800 call than the cost of NXX access.⁴

It bears noting that this small increase in the basic 800 carrier identification charge has been offset by reductions in U S WEST's underlying switched access rates. On July 1, 1993 U S WEST's average switched access rate was 3.07 cents per minute. Today, that rate is 2.89 cents — or 0.18 cents per minute less. U S WEST is further proposing to charge 2.78 cents effective this July — or 0.29 cents per minute less than what it charged only one year ago. Thus, the one-fifth-of-a-penny (0.22 cents) increase in the basic per call rate is offset by the savings interexchange carriers realize in the first minute of each 800 call. Simply put, 800 access using the data base system is cheaper than was 800 access using the NXX system!⁵

⁴Some non-carrier commenters nonetheless assert that U S WEST's per-call increase of one-fifth of a penny is "inexplicably high" and "inflated." CompuServe at 4; NDC at 7.

⁵The length of an average 800 call within U S WEST's region is 2.47 minutes. For a call of this length, interexchange carriers paid, in total access charges, \$0.075 in July 1992, \$0.079 in July 1993 and will pay only \$0.072 in July of this year:

Overall Access Cost for 2.47-Minute 800 Call			
	July 1992	July 1993	July 1994
Switched Access Rate	0.073537	0.075829	0.068666
Carrier ID Charge	<u>0.001299</u>	<u>0.003500</u>	<u>0.003122</u>
Total	0.074836	\$0.079329	\$0.071788

In any event, the minuscule increase in the 800 carrier identification charge must be evaluated against the benefits resulting from the introduction of 800 data base. Interexchange carriers have benefited because data base access has enabled them to grow the market and, consequently, their revenues. For example, one major 800 carrier has readily acknowledged that it "has experienced an increase in customers with new 800 [data base] applications in addition to those transferring from other carriers."⁶ Another major 800 carrier has experienced the same pleasant phenomenon:

While it is true that 800 database service promotes customer migration between carriers, it also stimulates overall 800 usage.⁷

These carrier observations are confirmed by the facts. During the past year (the first year that the data base system was operational), the number of interstate 800 calls in U S WEST's region has increased at the healthy rate of 15%. During the same period the number of intrastate 800 access calls has increased by an astonishing 51%!⁸ Thus, rather than depressing the 800 market, the introduction of 800 data base (even with its associated one-fifth-of-a-penny increase in cost) has stimulated 800 usage and demand.

Customers of 800 service have likewise benefited from the introduction of 800 data base access. This form of access has enabled them, for the first time, to change their serving 800 carriers without having to change their 800 number. It is universally recognized that this number portability capability,

⁶MCI at 44.

⁷Sprint at 14.

⁸U S WEST's intrastate per-call charge is \$0.0035, the same rate it initially charged for interstate access.

in turn, has made the 800 market considerably more competitive than it had been when NXX access was used. If, for example, interexchange carriers reduced their retail 800 service rates by only one cent per minute as a result of 800 data base, customers have realized a noticeable savings in the cost of their 800 services: one cent for a one-minute call; 10 cents for a 10-minute call. Consumer savings are even larger if interexchange carriers reduced their 800 rates by more than one penny per minute. For instance, a two-cent-per-minute reduction would result in a consumer savings of 20 cents for a 10-minute 800 call.⁹

Earlier this year, the Common Carrier Bureau noted the possibility that "[e]xcessive query charges could diminish the benefits that 800 number portability and the resulting competition can bring to end-users of 800 telecommunications service by diminishing demand for this service."¹⁰ There is, however, no evidence whatsoever that U S WEST's per-call rate has stifled the 800 market in any way; rather, the facts demonstrate robust growth in both the number of customers and calls — notwithstanding the one-fifth-of-a-penny increase in the carrier identification charge.

In summary, it is understandable that some would challenge even a per-call increase as small as one-fifth of a penny. If given the opportunity, almost anyone will argue a right to obtain a service at less than the offered rate — including, if possible, rates less than the cost of providing the service.

⁹Unlike the Commission, U S WEST does not have ready access to the 800 service rates interexchange carriers have charged over time. It might be a worthwhile project for the Commission to review these per-minute rates over the past several years so it can document the actual public savings stemming from the introduction of 800 data base.

¹⁰800 Cost Model Order, 9 FCC Rcd 715, 717 ¶ 11 (CCB, Jan. 31, 1994).

Arguments for low (or no) rates will especially be made where, as here, the service providers (telephone companies) have already made the capital investment to provide the new capability and the benefits of this investment have already been realized.

But the facts are that U S WEST is legally entitled to recover its costs in meeting a Commission-mandated service, and an incremental increase of one-fifth of a penny per 800 call is not unreasonable — particularly given the unquestioned greater complexity of providing data base access over that of providing NXX access, given the indisputable benefits that the public and interexchange carriers have enjoyed by the introduction of data base access, and comparing this rate to that charged for LIDB validation (over three cents per query).

II. U S WEST's Exogenous Costs Are Reasonable

A. The Governing Standard of Review

Some commenters would give the impression that the Commission has unfettered discretion to disallow any and all costs telephone companies incurred in provisioning 800 data base access service. While the Commission may certainly disallow unnecessary, imprudent or unreasonable costs, it does not possess the power to disallow costs willy-nilly.

Under the Taking Clause of the Fifth Amendment to the United States Constitution, regulatory agencies may not preclude a carrier from recovering those costs it incurred to comply with a regulatory-imposed mandate. In this instance, this Commission ordered the telephone industry to provide 800 ac-

cessing the data base method rather than the NXX method. As such, the

Commission cannot now deprive carriers of the opportunity of recovering increased costs they incurred in providing this mandated capability — regardless of whether this new capability is defined as a "new" service or a "restructured" service.

B. The Cost Categories U S WEST Has Identified Are Reasonable

The Commission has already held that telephone companies may recover their costs associated with "Service Control Points (SCPs), the Service Management System (SMS), and links between SCPs and the SMS, as well as between Signal Transfer Points (STPs) and SCPs, to the extent such costs are directly attributable to 800 data base service."¹¹ The Commission added that "[o]ther expenses may also qualify for exogenous treatment" so long as "such additional costs are incurred specifically for the implementation of basic 800 data base service."¹² U S WEST seeks to recover two types of costs in the latter category: costs associated with (1) acquiring 800 SSP software and (2) changing its billing system to accommodate data base access service.¹³

1. 800 SSP Software. 800 Service Switching Point (SSP) functionality is the software that enables a switch to halt call progress, formulate and send an 800 query to an 800 data base, and then act on the information contained

¹¹800 Rate Structure Order, 8 FCC Rcd 907, 911 n.28 (Jan. 29, 1993).

¹²Ibid.

¹³U S WEST has incurred, and continues to incur, additional costs in providing 800 data base access. It does not now include these other costs because inclusion of SSP software and billing changes is enough to cover its initial basic per-call rate of \$0.0035 and its current rate of \$0.003312. However, U S WEST retains the right to amend its costs if the Commission disallows any portion of U S WEST's included costs and if that disallowance causes U S WEST's per-call rate to fall below cost.

in the response.¹⁴ As of May 1, 1993 U S WEST had installed 800-SSP software in 295 switches,¹⁵ which was done specifically to provide 800 data base access service; without this software, an 800 query cannot be generated and, as a result, an 800 data base access service cannot be provided.

The 800 SSP software which switch vendors have made available to U S WEST supports 800 services only; U S WEST must purchase different SSP software for other services supported by data base applications (e.g. LIDB). Clearly, this 800 SSP software expense was "incurred specifically for the implementation of basic 800 data base service."¹⁶

¹⁴U S WEST was also required to purchase SSP hardware which was rather costly for certain switch types (e.g., almost \$600,000 per switch). U S WEST does not now include any of these costs even though this hardware is used in transmitting basic 800 data base queries. There is, therefore, no basis whatever for the claim that "LECs [like U S WEST] have overstated exogenous costs significantly." Users Committee at 3. As noted, U S WEST reserves the right to later add these costs if the Commission disallows the costs it has submitted.

¹⁵U S WEST has installed 800 SSP software in additional switches since that time, including 53 switches in the second half of 1993 alone (with more switches this year). However, U S WEST has not included this additional investment in the costs submitted to the Commission.

¹⁶As such, the ETI Report is mistaken in asserting that 800 SSP software is a "core SS7" cost (at 26). It is noteworthy that the one developer of SSP software which has participated in this proceeding does not challenge the proposition that 800 SSP software can be used solely for 800 services.

MCI grossly misstates the record in claiming that "the Commission [has already] excluded SSPs . . . from its definition of exogenous" (at 9). Indeed, 800 SSP software meets even MCI's own (but erroneous) test for exogenous treatment — that is, costs "incurred exclusively for the implementation of 800 data base access" (at 6)(emphasis in original).

Another commenter astonishingly asserts that U S WEST should be precluded from recovering its 800 SSP investment because another carrier, Ameritech, supposedly "conceded it can identify no costs associated with SSP." Allnet at 3. U S WEST has not analyzed Ameritech's filings but, regardless of its situation, U S WEST can identify its 800 SSP software costs.

Finally, it should not be surprising that U S WEST's SSP costs in its direct case were different than those in its supplemental direct case (see MCI at 25) because U S WEST used completely different costing methodologies — an incremental approach in its direct case and a more embedded cost approach in its supplemental case. U S WEST's earlier filings were mis-

Continued on Next Page

2. Changes to Access Billing System. U S WEST had been providing 800 access using the NXX method. The change to the data base method required U S WEST to change its access billing system so that system could read AMA tapes generated from the SCPs, compile that data into a billing format, and forward that data to additional billing systems. Like 800 SSP software, the costs U S WEST incurred to convert its billing system to accommodate data base access were "incurred specifically for the implementation of basic 800 data base service."¹⁷

**C. U S WEST's 800 Service Allocation Factors
Are Reasonable**

Some 800 data base investment is used exclusively for 800 data base access and, as one commenter acknowledged, "[d]irect assignment is reasonable" so long as "the investment will not be used for services other than 800 data base."¹⁸ Other investment is used to support 800 and other services. This section describes the allocation methods U S WEST used to ensure that

leading in one respect, however. In listing "tandem" costs, U S WEST was not attempting to recover any costs associated with tandem switching per se — *a la* a large telephone company on the west coast. See MCI at 8. What U S WEST had included in the "tandem" category were the costs for SSP software installed in its tandem switches (which was done to support 800 data base from end offices not equipped with 800 SSP software).

¹⁷Only one commenter questions U S WEST's inclusion of this cost, asserting only that "billing changes are routine upgrades." MCI at 36. The changes U S WEST made to its access billing system to accommodate 800 data base service were not routine. U S WEST would not have incurred this expense except for the Commission's mandate that it use data base rather than NXX with its 800 access service. In the Commission's words, these billing changes represent "increas[ed] costs associated with the provision of the service" as "required by the Commission's orders." 800 Rate Structure Order, 8 FCC Rcd at 911 ¶ 27.

¹⁸MCI at 19.

only that portion of "multiple application" investment assigned to its 800 data base rate element is that portion actually used for 800 data base.¹⁹

One preliminary matter must be addressed at the outset. Two of the nine commenters assert that telephone companies may recover only those investments which are used exclusively for 800 data base.²⁰ According to these commenters, any investment also used with another service must necessarily be classified as a "general network upgrade cost" because, they claim, capacity additions "are ordinary events in the daily business of a LEC."²¹

The position of these commenters is fatally flawed. First, the Commission has never stated that telephone companies may recover only those investments used exclusively for 800 data base. Rather, it has ruled that companies can recover all costs incurred "specifically for implementation of basic 800 data base service" — that is, any "increas[ed] costs associated with the provision of the service."²² Indeed, the tortured "exclusive" limitation that these two commenters would now impose is flatly inconsistent with the Commission's holding that telephone companies can recover such multi-application investments as SCPs and SCP links "to the extent such costs are directly attributable to 800 data base service,"²³ and would be repugnant to

¹⁹It bears repeating that U S WEST has not included all of the investment used specifically for 800 data base. See, e.g., notes 13-14 *supra*. If the Commission adjusts U S WEST's allocation factors in a way that impacts its current rate of one-third of a penny per 800 call, U S WEST reserves the right to add additional investment for consideration in cost recovery.

²⁰MCI at 6; NDC at 8.

²¹MCI at 10; NDC at 8.

²²800 Rate Structure Order, 8 FCC Rcd at 911 ¶¶ 27 and 28 (emphasis added).

²³Ibid.

the Commission's long-standing policy of applying principles of cost-causation.²⁴

Growth and capacity additions are often an ordinary event in a carrier's daily business; once a price cap is established for 800 data base, any costs associated with extra capacity additions made to meet continued growth in 800 service demand must be accommodated by adjusting the cap for the 800 data base rate element (applying the ordinary price cap rules).²⁵ But at issue here is a new capability that the Commission has required the telephone industry to deploy. As such, as the Commission has already held, telephone companies are legally entitled to any "increas[ed] costs associated with the provision of the service" as "required by Commission orders."²⁶

1. 800 SSP Software. As noted, switch vendors developed their 800 SSP software so it could be used with 800 service only. Direct assignment of this investment, consisting of right-to-use fees, is appropriate.²⁷

²⁴Any other conclusion would also contravene the Fifth Amendment right of telephone companies to recover costs incurred in providing a Commission-mandated service.

Completely baseless is the assertion of one commenter that allowing recovery of 800-related costs of multiple-application investment "would allow the LECs to recover these costs twice: once through exogenous treatment and once through the ordinary operation of the Commission's price cap rules." NDC at 4. In the first place, the vast majority of so-called "core SS7" costs were incurred after the introduction of price caps and, therefore, were never included in the original price cap rates. In any event, the capacity additions telephone companies had to make to accommodate 800 data base will certainly not be recovered through "the ordinary operation of the price cap rules" until those price caps are adjusted to specifically include these additional costs.

²⁵It was precisely for this reason that U S WEST has not included post-May 1993 investment such as additional SSP deployment. See note 15 *supra*.

²⁶800 Rate Structure Order, 8 FCC Rcd at 911 ¶ 27.

²⁷One non-carrier commenter questions direct assignment, claiming (without any support) that "SSPs will be used for other services." NDC at 9. This commenter is mistaken. U S

Continued on Next Page

2. SMS. The costs associated with operation of the SMS have been incurred solely in connection with 800 data base service. Direct assignment to 800 service of this expense is, therefore, appropriate.²⁸

3. SMS/SCP Links. These data links connect the SMS with U S WEST's SCP pairs so that changes to 800 service records made in the SMS can be downloaded to the SCPs. These links are used in connection with 800 service only and it is therefore appropriate to allocate the entire cost to 800 service.

4. Billing System Modifications. The modifications U S WEST made to its access billing system were obviously made solely in connection with 800 data base access service.²⁹ Consequently, direct assignment of this expense is appropriate.

5. 800 SCPs. U S WEST has two mated SCP pairs. One pair, installed in early 1993, is used exclusively for 800 service. Direct assignment of this investment is, therefore, appropriate. U S WEST's second pair, installed in 1992, is used for 800 and LIDB-based services and, consequently, some means must be found to allocate to 800 service that portion of this investment used to support 800 service.³⁰

WEST has investigated the feasibility of modifying its 800 SSP software for use with similar services like 900 and 500 access services. The cost to modify 800 SSP software is so prohibitive as to make the use of this software very unlikely.

²⁸U S WEST's SMS costs do not include any sum billed for its intrastate RESPORG activities, a concern expressed by some in connection with the rates charged by other carriers.

²⁹U S WEST has not included the costs it incurred in revising its CRIS billing system.

³⁰Interexchange carriers and 800 customers benefit from U S WEST's decision to support 800 service from two SCP pairs. If one of the pairs (or the links to the pairs) becomes

Continued on Next Page

U S WEST engineered its multiple-application SCP pair so that 25% of its capacity would be used to support 800 service, with the remaining 75% of the capacity used to support other services. However, the growth in 800 service has been so strong that U S WEST has had to devote additional capacity of this multi-application SCP pair to 800 service. Last month, for example, 40.777% of all queries directed to this pair were 800 service queries.³¹ Nevertheless, consistent with its original engineering plan, U S WEST has allocated only 25% of the investment associated with its multiple application SCP pair to 800 service.

Three commenters question this 25% allocation factor, making a total of three different contentions. One commenter initially argues that U S WEST should be precluded altogether from recovering its 800-related costs associated with its multi-application SCP pair. This commenter reasons that this SCP pair "would plainly exist even in the absence of 800 basic data access," and that consequently the "costs associated with such an SCP clearly were not 'specifically incurred' for the implementation of basic 800 data base access."³²

It is true, of course, that U S WEST's multi-application SCP pair would exist even in the absence of 800 data base access. But if 800 data base were

inoperable, U S WEST can move its 800 traffic to the other pair to ensure that it can continue to provide 800 access without interruption.

³¹Overall, 74.73% of all queries processed by U S WEST's regional STPs and transmitted to one of its SCP pairs were 800 queries; the remaining 25.27% of queries were in connection with non-800 services.

³²NDC at 12 *citing* ETI Report at 22-23.

not being provided, U S WEST would not require SCP capacity (memory and processing power) as great as currently in use today.

Second, it is argued that U S WEST has not accounted for future non-800 uses of its SCP investment.³³ The facts do not support this contention. The 800 service market, as even these very commenters readily admit, is growing and will continue to grow. As noted, growth in 800 usage in the last year alone has required U S WEST to devote 40% of its capacity of its multi-application SCP pair to 800 service when U S WEST had anticipated using only 25% of this capacity. Continued 800 service growth will require U S WEST to expand its SCP processing power and memory capacity for 800 service (whether by adding additional processors or by deploying a third SCP pair).³⁴

Finally, these commenters say it may not be reasonable to use queries as a service allocator unless all queries are identical.³⁵ In expressing this concern, however, these commenters do not offer an alternative method for allocating costs among services.

Attempting to assess the relative "value" of different queries would be an enormously complex task and, in the end, be of questionable value, especially where, as here, the amounts involved are so small and when U S WEST

³³See MCI at 19; NDC at 9 and 11; Users Committee at 9. See also ETI Report at 18 and 21-23.

³⁴It bears noting that U S WEST gives priority to 800 service over other SCP-supported services because 800 calls cannot be processed if the SCPs fail or become overloaded. Other applications (e.g., calling card validation) involve enhancements to calls, and the failure or congestion of SCPs will not impact call processing itself.

³⁵*Ibid.*

has utilized an allocator that is smaller than actual usage (25% vs. 40%). Such a study would have to consider, among other things, the length of each query and each response (octets),³⁶ the processor time consumed by each query and response, the amount of memory devoted to each record, the costs of memory, and the costs of the various portions of the processor. Any analysis undertaken, however, would immediately become outdated as U S WEST adds capacity (memory or processor) or as additional records are stored in and processed by the SCP pair. For these reasons, the use of queries is a reasonable way to allocate SCP costs among services.

6. Regional STP/SCP Links. These links connect U S WEST's regional STP pairs with its SCP pairs and are used to transport queries to and responses from its SCPs. Currently, three-fourths (74.73%) of all queries traversing these links are 800 service queries. Nevertheless, U S WEST has used an 800 allocation factor of only 62% (based on its assignment of 100% of one SCP pair and 25% of the second pair).

D. U S WEST's State/Interstate Allocator Is Reasonable

The purpose of this proceeding is to identify the costs "incurred specifically for the implementation of basic 800 data base service" so that, consistent with settled principles of cost-causation, these "exogenous" costs are paid for by the cost-causers (*i.e.*, users of 800 service). Over the past year, the first year that the data base system was in operation, 84.9% of all 800 queries pro-

³⁶The length of an average 800 query and response is 166 octets, while the length of an average LIDB query and response is 186 octets.

cessed by U S WEST were made in connection with interstate calls.³⁷ The unit cost to process an interstate 800 query is the same as that to process an intrastate 800 query and, therefore, principles of cost-causation dictate that 84.9% of these costs be allocated to the interstate jurisdiction.

Three commenters state that it is "clearly inappropriate" to use actual usage for the state/interstate allocator because actual usage "inappropriately results in a larger amount of the overall investment being recovered through interstate access prices than is actually allocated to the interstate jurisdiction."³⁸ While not explaining the logic of this statement,³⁹ these commenters nonetheless urge the Commission to require telephone companies to use instead the generalized separations formulas contained in Part 36.

The use of Part 36 is inappropriate in connection with the 800 data base exogenous issue now before the Commission, and its application could, depending upon the particular Part 36 allocator used, undermine the very principle of cost-causation that the Commission has stated should govern this proceeding.

³⁷While U S WEST provides an intraLATA 800 service, that service does not include any interstate traffic. This explains why U S WEST has not "assigned any costs to [its] inter-exchange basket." MCI at 16.

U S WEST's retail 800 service constitutes only a sliver of the intrastate market: 7.9% of all intrastate calls during the first year of the data base system. Moreover, while the intrastate market has grown dramatically over the past year, the number of U S WEST's own 800 service calls has decreased by 14.5%.

³⁸See MCI at 26-31; NDC at 14; Users Committee at 10-11. See also ETI Report at 28-29.

³⁹In crafting their sentence in this way, the commenters would give the erroneous impression that an allocator based upon actual use would result in interstate users subsidizing intrastate users. In fact, an actual use standard ensures that there will be no subsidy between state and interstate users.

Part 36, developed long before the price cap rules, is used to allocate costs of existing services to reflect changes in telephone company investment and expenses. The issue in this proceeding, in contrast, is to identify the increased costs telephone companies have incurred specifically for 800 data base so an initial price cap can be established and so those costs can be recovered from cost-causers. Not only is there no need to resort to the generalized allocation formulas contained in Part 36, but use of Part 36 would actually frustrate the very purpose of this proceeding — identification of exogenous costs and development of rates to recover those specifically-incurred costs — if the Part 36 allocator does not reflect actual usage. If, for example, the Part 36 allocator assigned only 50% of investment and expenses to the interstate jurisdiction while 85% of all the investment and expenses were used for interstate services, interexchange carriers would pay less for interstate access than it actually costs to provide the interstate service — contravening the very principle of cost-causation that the Commission has held should apply to this proceeding.⁴⁰

In summary, if anything is "clearly inappropriate" in this exogenous proceeding, it would be the use of Part 36 rather than actual usage data in separating 800 data base costs between the state and interstate jurisdictions. Subsidies among services and between jurisdictions can no longer be tolerated.⁴¹

⁴⁰Moreover, state PUCs will not receive well an FCC order which allocates a disproportionate share of an FCC-mandated service to the state jurisdictions.

⁴¹If, however, the Commission determines that Part 36 is applicable, then companies should be allowed to use the same separations methods used in connection with NXX access. See Interim 800 Exchange Access Tariffs, 2 FCC Rcd 5905, 5908-09 (Sept. 29, 1987). This method results in an allocation factor that is consistent with actual use.

**E. U S WEST's Interstate 800 Data Base
Exogenous Cost Is Reasonable**

U S WEST's total interstate exogenous cost in connection with 800 data base access service is \$4,326,788.00. This sum was computed as follows:

1. Interstate 800 Data Base Investment. U S WEST is claiming at this time a total interstate 800 data base investment of \$13,811,636. This sum was computed as follows:

<u>Cost Category</u>	<u>Total Investment</u> ⁴²	<u>800 Service Allocator</u>	<u>800 Service Investment</u>	<u>Interstate Allocator</u>	<u>Interstate 800 Investment</u>
SCP (93 pair)	\$4,113,400	100%	\$4,113,400	84.9%	\$3,492,276
SCP (92 pair)	\$4,666,109	25%	\$1,166,527	84.9%	\$990,381
SCP/RSTP links	\$437,936	62%	\$271,520	84.9%	\$230,520
800 SSP software	\$10,716,680	100%	\$10,716,680	84.9%	\$9,098,461
Total Interstate 800 Data Base Investment					\$13,811,638

2. Interstate 800 Data Base Expenses. U S WEST is claiming at this time a total interstate 800 data base annual expense of \$508,131.00. This sum was computed as follows:

<u>Cost Category</u>	<u>Total Expense</u>	<u>800 Service Allocator</u>	<u>800 Service Expense</u>	<u>Interstate Allocator</u>	<u>Interstate 800 Expense</u>
SMS	\$317,676 ⁴³	100%	\$317,676	84.9%	\$269,707

⁴²These investment categories include sums U S WEST booked only prior to May 1, 1993, and do not include investment made after the data base system became operational (e.g., additional SSP installation and SCP capacity).

⁴³This sum includes U S WEST's projected annual SMS expense (but excludes extra costs for U S WEST's intrastate RESPORG services). In achieving this figure, U S WEST developed an average monthly expense (based on the last six months' bills in 1993) and multiplied that sum by 12.

SMS links	\$210,678 ⁴⁴	100%	\$210,678	84.9%	\$178,865
CABS changes	\$70,152	100%	\$70,152	84.9%	\$59,559
Total Interstate 800 Data Base Expense					\$508,131

3. Calculation of U S WEST's 800 Data Base Exogenous Cost. Having identified its interstate 800 data base investment and expenses, U S WEST calculated its interstate exogenous cost as follows:

1. Interstate 800 Expenses					\$508,131
2. 800 Investment					
Total Investment	\$13,811,638				
Depreciation Factor ⁴⁵	x 0.0829				
Interstate 800 Depreciation	\$1,144,984				\$1,144,984
3. State/Local/Other Income Taxes					
Total Investment	\$13,811,638				
Tax Factor	x 0.0205				
Interstate Taxes	\$283,138				\$283,138
4. Return on Investment					
Total Investment	\$13,811,638				
Return Factor	x 0.1125				
Interstate Return	\$1,553,809				\$1,553,809
5. Federal Income Taxes					
Interstate Return	\$1,553,809				
FIT Gross-up Factor ⁴⁶	x 0.5385				
Interstate FIT Expense	\$836,726				\$836,726
Total Interstate 800 Data Base Exogenous Cost					\$4,328,788

⁴⁴This sum represents U S WEST's projected annual expense based upon several months of actual bills.

⁴⁵The depreciation and tax factors were developed using 1993 ARMIS data, 43-01.

⁴⁶This FIT gross-up factor is $(.35/(1-.35))$.

III. U S WEST's Basic 800 Query Rate Is Reasonable

The demand U S WEST used has not been challenged. (U S WEST did not use levelized demand).

Attachment A demonstrates that, with an interstate 800 data base exogenous cost of \$4,326,788, U S WEST may charge a basic carrier identification rate of \$0.003685 per 800 call to recover this cost.⁴⁷ U S WEST does not, however, propose to increase either its initial per-query rate (\$0.0035) or its current per-query rate (\$0.003312).

IV. Use of Method 2 Is Appropriate Because It Is the Only Method which Complies with the Price Cap Rules

The Commission has identified three different methods by which telephone companies can restructure their traffic-sensitive baskets while adjusting for exogenous costs.⁴⁸ U S WEST used Method 2 — whereby adjustments were first made for exogenous costs after which the traffic-sensitive baskets were restructured — for two reasons:

1. The calculations involved in this method are relatively simple; and
2. Method 2, unlike Methods 1 and 3, complies with the price cap rules.⁴⁹

⁴⁷U S WEST has previously noted that it is capable of submitting additional 800-related costs (and will do so if the Commission makes any adjustments that would cause U S WEST's rates to fall below cost).

⁴⁸See Designation Order, 8 FCC Rcd 5132, 5133-34 ¶¶ 8-24 (July 19, 1993).

⁴⁹See id. at 5134 ¶ 22. See also AT&T at 6 n.14 and 7 n.15; MCI at 41.

Two commenters argue that the Commission should require telephone companies to use instead Method 3 even though such an approach would require entry of a waiver because Method 3 does not comply with the price cap rules. The Commission should not require telephone companies to follow a procedure that violates the Commission's own rules. If some believe that the current rules are inadequate, unreasonable or inequitable in any way, they should file a rulemaking proceeding to change those rules, the procedure prescribed by the Administrative Procedures Act.

Nevertheless, for the benefit of the Commission and commenters, U S WEST below compares the impacts of Method 2 and Method 3:

EXOGENOUS: \$4,326,788		EXOGENOUS: \$4,326,788	
METHOD TWO		METHOD THREE	
PCI		PCI	
95.3204		95.3204	
API		API	
95.2827		95.2827	
PROPOSED SBI's		PROPOSED SBI's	
LOCAL TRANSPORT	90.2070	LOCAL TRANSPORT	90.2070
LOCAL SWITCHING	104.5012	LOCAL SWITCHING	104.5012
INFORMATION	81.3550	INFORMATION	81.3550
800 DATA BASE	100.0000	800 DATA BASE	100.0000
SBI LOWER LIMITS	SBI UPPER LIMITS	SBI LOWER LIMITS	SBI UPPER LIMITS
86.1867	95.2589	85.7865	94.8166
99.7900	110.2943	99.3267	109.7822
81.7256	90.3282	81.3461	89.9088
95.4432	105.4898	95.4432	105.4898
PROPOSED REVENUE		PROPOSED REVENUE	
LOCAL TRANSPORT	\$540,699,548	LOCAL TRANSPORT	\$540,699,548
LOCAL SWITCHING	\$346,643,225	LOCAL SWITCHING	\$346,643,225
INFORMATION	\$37,687,151	INFORMATION	\$37,687,151
800 DATA BASE	\$6,681,634	800 DATA BASE	\$6,681,634
TOTAL	\$931,711,558	TOTAL	\$931,711,558
800 DATA BASE RATE - MAXIMUM		800 DATA BASE RATE - MAXIMUM	
\$0.003685		\$0.003685	
REVENUE CHANGE	\$4,326,290	REVENUE CHANGE	\$4,326,290
EXOGENOUS	\$4,326,788	EXOGENOUS	\$4,326,788
DIFFERENCE	(\$498)	DIFFERENCE	(\$498)
800 DATA BASE RATE - PROPOSED		800 DATA BASE RATE - PROPOSED	
\$0.003500		\$0.003500	

NOTE: THE RATES DISPLAYED ABOVE ARE FOR ILLUSTRATIVE PURPOSES ONLY.